International Monetary and Financial Committee

Thirteenth Meeting
April 22, 2006

Statement by The Honorable Awang Adek Hussin
Deputy Minister of Finance, Malaysia
On Behalf of Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam

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Deputy Minister of Finance II, Malaysia

International Monetary and Financial Committee (IMFC)
Saturday, 22 April 2006

Representing the constituency of Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao P.D.R., Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, and Vietnam

The Global Economy and Financial Markets

1. We are pleased to note that the Fund's assessment is that the global economic outlook remains solid with healthy growth prospects going forward. More importantly, global growth appears to be much more balanced since the last Annual Meeting with strong growth continuing in China and much more promising signs of sustainable growth emanating from Europe and Japan as economic indicators in these countries are starting to pick up and move in the right direction. While the problem of the global imbalances is still unresolved, we should be mindful that these global imbalances have been built up over time and it is only reasonable to expect that more time is needed before they can be unwound.

2. In the present environment of high global integration, there is no doubt that protectionist pressures should be resisted. It is also clear that the unwinding of global imbalances would be more effectively achieved through coordinated efforts by the international community. While we recognize that exchange rate flexibility can play a role in adjustments to the global imbalances, nevertheless, we underscore that the adjustments should match and be complementary to the underlying pace of shifts in demand. In response to the calls for international cooperation and coordinated actions to resolve the global imbalances, Asian countries have responded and taken positive steps forward by introducing greater exchange rate flexibility. Since end-2001, several regional currencies have appreciated by double digits against the US dollar (Korean won: 35 percent; Indonesian rupiah: 15 percent; Singapore dollar: 14 percent; Thai baht: 14 percent). Recently, these currencies have reached multi-year highs (Thai baht: six year high; Korean won: eight year high; Singapore dollar: seven year high). Meanwhile, currencies that shifted to managed floating regimes in July 2005, namely the Chinese renminbi and Malaysian ringgit, have recently shown increased flexibility and pace of appreciation, with the Malaysian ringgit reaching an eight year high against the US dollar on April 12, 2006.We wish to reiterate that exchange rate appreciation per se cannot fully address the imbalances. In view of the important lessons learnt from past experiences, we should be mindful that any drastic appreciation of Asian currencies can lead to severe economic dislocation and trigger global economic and financial instabilities.

3. Since the onset of the global slowdown in 2001 and with the realization that domestic demand has the potential to play an increasingly larger role, various initiatives to raise and promote domestic demand have been pursued and this is reflected in the downward trend of the savings rate in Asia. Going forward, private sector activities are expected to continue to play a greater role in the economy through increased spending capacity. In the case of investment, following the effects of restructuring and reforms amid strong economic growth since the crisis, investment trends have already begun to show a recovery. On the financial front, efforts are also being made to strengthen the capacity and efficiency of the financial system to mobilise and allocate funds efficiently. Specifically, the resilience of the banking sector has improved, supported by more sophisticated risk management tools. In a nutshell, a more balanced growth strategy with promoting domestic demand as an important anchor of growth in the region is already being addressed, with the aim of eventually promoting a more self-sustaining growth path within the region and in the process, contribute significantly in magnitude to the global adjustment process.

Implementation of the IMF's Medium-Term Strategy

4. As the economic importance and influence of many emerging market economies have increased significantly since the last general quota increase, the Fund's advice and engagement with these countries will lose its relevance, value and meaning if a sense of a lack of institutional ownership persists among them. In this respect, the Managing Director's proposal to review the voice and representation of member countries in a sequenced approach is a timely, welcome and practical one since it allows for ad hoc quota increases to take place for the most under-represented members in the near term, while other more complex issues such as basic votes and quota formula will be taken up at a later second stage over the medium term. In order to reach a consensus on the list of countries to receive ad-hoc quota increases in the first stage, the existing quota formula would provide a practical and useful guide since it takes into account the relevant factors that are important in an increasingly globalized world for determining a member's ability and willingness to contribute and play a larger role within the Fund as well as the international community at large. The process of resolving the under-representation of emerging market countries has to be an inclusive exercise and not limited to a 'select few'. In this regard, Southeast Asian countries should not be overlooked in the exercise, especially since economic growth and development in the region is among the fastest in the world with the region as a whole increasing rapidly both in terms of economic and strategic importance. This increasing prosperity and economic influence of the region points to the ability and willingness of Southeast Asian countries to play a larger role in the international community and assume greater responsibilities within the Fund. The Fund would run the risk of losing its relevance and influence in the region through its inaction on this aspect of quota reform. We strongly urge the IMF Board to come up with specific and concrete proposals on the broad group of significantly under-represented countries to be included as well as the scale of the ad hoc increases for IMFC consideration by the time of the upcoming Annual Meeting in Singapore. Related to the issue of governance, we should also address the selection process of the IMF

Managing Director, which should be an open and transparent process to ensure the choice of the best person for the position.

5. With regards to improving the effectiveness of exchange rate surveillance, we agree that evaluation of the consistency of exchange rate policies with national and international stability remains an important goal of surveillance. However, we categorically disagree with the publication of the exchange rate assessments, be it in the World Economic Outlook (WEO) or other publication, because the methodology and data constraints imply that assessments are still made on shaky grounds and that judgments about the equilibrium values of exchange rates are not an exact science and still remain largely judgmental. As such, publishing the exchange rate assessments in the WEO would be counter-productive and may have adverse effects on highly vulnerable markets in emerging economies. In addition, we caution against the overemphasis of exchange rate issues in Article IV surveillance discussions at the expense of other important macro-critical areas such as fiscal policy and structural reforms, which are equally relevant to overall macroeconomic stability and sustainable growth. With respect to the IMF outreach initiative, the Fund should not overdo the need for transparency at the expense of its role as a confidential advisor to members. We do not agree with the recommendation that press conferences should become routine, after either the missions or the Board meeting on Article IV. The Fund should consult and respect the authorities' views on whether a press conference is useful and appropriate, taking into account political and regional sensitivities.

6. As financial markets have become more integrated and capital flows have reached unprecedented scales, it is time for the Fund to reassess the effectiveness of its financial sector surveillance. In this regard, it is appropriate for the Fund to undertake several important efforts to improve the quality of its financial sector advice. In this respect, the integration of the analysis of financial sector and balance sheet vulnerabilities is probably a step in the right direction. However, before actually using this approach in assessing a country, the Fund should provide adequate training especially for developing countries to raise their awareness of risks and vulnerabilities underlined by this new approach. In line with enhancing effectiveness and efficiency, we certainly welcome the Managing Director's proposal to streamline the procedures for Article IV consultations such as by having shorter missions with smaller teams to non-systemic and stable countries every other year. We share the MD's thoughts that strong and effective engagement need not translate into rigid procedures and the freed-up resources can be put to greater use for other more pressing and important needs.

7. Rapid movement of capital flows at an unprecedented scale continues to be the main challenge for the Fund's work in emerging market countries, especially with respect to crisis prevention and resolution. The Fund's work on crisis prevention should focus on better and more effective surveillance through placing more emphasis on financial and capital market issues, which should remain at the core of the Fund's macroeconomic analysis for all countries, not just emerging markets. In addition, the Fund must ensure that it has adequate financing available to these countries when they are faced with a capital account crisis. In

this connection, the Fund needs to enhance its policy instruments by putting in place a precautionary facility with high access and flexible disbursement conditions that can be speedily utilized to prevent a crisis. As such, we welcome the MD's proposal to set up a new type of precautionary arrangement which has contingent financing access up to 300 percent of quota, is automatically available in a single up-front purchase, and augmentable upon subsequent review. We underscore the importance of automaticity as speedy disbursement is of critical importance in the prevention of confidence crises since the cost of resolution is disproportionately large once this confidence evaporates. In the same vein, we are of the view that the guidelines on exceptional access should also be reassessed to address the fact that a country's quota does not accurately represent its financing needs.

Low-Income Countries

8. We would like to express our appreciation to the Fund for extending debt relief under the Multilateral Debt Relief Initiative (MDRI) to Cambodia, one of the members in our Constituency. This freeing up of resources will contribute significantly to the process of strengthening macroeconomic stability and poverty reduction in the country. Going forward, we look forward to similar support for other Heavily Indebted Poor Countries under the sunset clause. For those countries that benefited from the debt relief, the Fund's priority should be to ensure that the beneficiaries do not again accumulate excessive debt. In addition, the design of Fund programs for low-income countries (LICs) should place more emphasis on macro-critical issues. The priority of Fund programs in LICs should be to ensure that a proper macroeconomic framework to facilitate the promotion of sustainable growth is put in place since the exit from poverty through sustainable growth is essential for low-income countries to pay off their debts and successfully exit from Fund program. In this respect, the Fund should focus its policy advice on sustainable growth strategies as opposed to reforms that may not be within the Fund's expertise or mandate.

9. We again stress that it is important for the Fund to receive sufficient and timely financial obligations from the G-8 in connection with the MDRI so as to ensure that the financial position of the Fund is preserved and its role in low-income countries going forward is not compromised. Furthermore, we reiterate that the introduction of user fees for technical assistance (TA) should not be viewed solely from a financial perspective since capacity building is a public good and has many positive externalities through its contribution to macroeconomic stability as well as sustainable economic growth and development. Imposing user fees could conflict with the Fund's objective to assist low-income countries in their poverty reduction and reform efforts. If user fees are to be levied, charges should be strictly related to countries' ability to pay. It is important to ensure that the design of the pricing structure does not provide disincentives to low-income countries from receiving essential and much needed TA, thereby resulting in under-consumption. We strongly believe that the Fund should play an active role in the provision of longer-term technical assistance, in particular to low-income countries, but we underscore that a thorough needs analysis should be carried out to ensure that TAs are demand driven and are in line with countries' development priorities.